

Dowd Water Systems, Inc.
*Application for approval of meter-based
water distribution fees for Stephenson
Lakes Water System*

Docket No. 2003-7-W

*Direct Testimony
Vivian B. Dowdy
Audit Department*

Public Service Commission of South Carolina

TESTIMONY OF VIVIAN BROWN DOWDY

FOR

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2003-0007-W

IN RE: DOWD WATER SYSTEMS, INC.

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

**A. My name is Vivian Brown Dowdy. My business address is 101
Executive Center Drive, Columbia, South Carolina. I am an Auditor
for the Public Service Commission of South Carolina.**

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR
BUSINESS EXPERIENCE.**

**A. I received a B. S. Degree with a major in Accounting from South
Carolina State University in 1977 and a M. A. in Business and
Management from Webster University in 1994. I have been
employed by the Public Service Commission since January 1980. I
have participated in rate cases involving telephone, gas, and water
and wastewater utilities and have testified numerous times before
this Commission.**

1
2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING DOWD**
3 **WATER SYSTEMS, INC?**

4 **A. The purpose of my testimony is to set forth, in summary form, the**
5 **Staff's findings and recommendations resulting from our review of**
6 **the Company's application in this docket. These findings and**
7 **recommendations are set forth below in my testimony.**

8 **Q. AS A RESULT OF YOUR REVIEW, DID YOU ALSO PREPARE SEVERAL**
9 **EXHIBITS WHICH ARE ATTACHED TO YOUR TESTIMONY?**

10 **A. Yes, I did.**

11 **Q. WOULD YOU EXPLAIN THE FORMAT OF EXHIBIT A?**

12 **A. Column (1) shows the Company's per book balances for**
13 **Stephenson Lakes as of December 31, 2002. Per books balances**
14 **were determined from the financial information obtained from the**
15 **Staff's examination of the Company's checkbook, bank statement,**
16 **invoices and billing and collection records.**

17 **Column (2) shows the Staff's accounting adjustments and pro**
18 **forma adjustments to correct or normalize the Company's**
19 **operations for Stephenson Lakes and to eliminate revenues and**
20 **expenses associated with its interconnection to the town of Chapin.**

1 Column (3) shows as Staff's computation of the Company's
2 normalized year.

3 Column (4) shows the revenue and related adjustments needed by
4 the Company to earn an operating margin of 0.00%.

5 Column (5) shows the computation, after accounting and pro forma
6 adjustments and revenue requirements, for an operating margin of
7 0.00%.

8 Q. WHY DID STAFF CALCULATE A 0.00% OPERATING MARGIN FOR
9 THE COMPANY?

10 A. The Company's latest approved operating margin of 23.96% was
11 approved by the Commission in Docket No. 2001-75-W. The
12 Company did not seek or have approved a fee for the
13 manager/owner operator. In this proceeding, Staff has proposed
14 to include in operating expenses a \$12,000 manager/owner
15 operator fee for total Company, with \$5,172 allocated to
16 Stephenson Lakes, based on the number of customers served by
17 the Dowd Water Systems.

18 Q. WOULD YOU PLEASE EXPLAIN THE ACCOUNTING AND PRO FORMA
19 ADJUSTMENTS IN EXHIBIT A1?

20 A. Yes. Staff has made accounting and pro forma adjustments for
21 known and measurable changes to the Company's operations.

1 **Adjustment 1.** The Staff proposes to remove flat rate based
2 revenues. The Company is seeking a meter-based water
3 distribution charge.

4 **Adjustment 2.** The Staff proposes to disallow miscellaneous
5 revenue collected by the Company. This fee collected by the
6 Company was used to offset the expenses for stamps, envelopes,
7 etc. However, this fee has not been approved by the Commission.
8 The Company charged each customer \$1.

9 **Adjustment 3.** The Staff proposes to remove the DHEC testing fees
10 of \$1,425 collected from its customers and the \$1,425 testing
11 expenses paid to DHEC. This fee is not regulated by the
12 Commission. It is a pass through fee imposed by DHEC.

13 **Adjustment 4.** The Staff proposes to disallow one-half of a \$354
14 expense paid to BellSouth Telephone Company. This phone
15 number is listed on the customers' bill but is used for both personal
16 use and water company business. Stephenson Lakes' allocated
17 portion of this expense is \$78. This allocation is based on the
18 number of customers served by the Dowd Water Systems.

19 **Adjustment 5.** The Staff proposes to remove \$1,724 of electric
20 expenses paid to Mid-Carolina Electric Cooperative associated with
21 Stephenson Lakes. The company is now buying its water from the

1 town of Chapin. The Company no longer needs electricity to
2 operate its Stephenson Lakes' well.

3 Adjustment 6. The Staff proposes to amortize rate case expenses
4 over three years. The test year included \$510 for expenses
5 associated with the Company's applications for increases in rates in
6 Docket Numbers 2001-75-W and 2001-181-W. Staff's adjustment
7 decreased General and Administrative Expense by \$340 on a
8 combined basis. Stephenson Lakes' allocated portion for this
9 expense is \$147. This allocation is based on the number of
10 customers served by the Dowd Water Systems.

11 Adjustment 7. The Staff proposes to remove loan payments from
12 expenses. The loan was used to pay for pumps that were
13 capitalized. The Staff allowed depreciation expense on the pumps.
14 The loan payments were used to reduce the liability for the loan on
15 the Company's balance sheet and should not be considered an
16 expense.

17 Adjustment 8. The Staff proposes to remove \$3,000 paid to the
18 owner of the Company for the reimbursement of a loan used to
19 open the Company's checking account in August, 2001.
20 Stephenson Lakes' allocated portion of this expense is \$1,291. This

1 allocation is based on the number of customers served by the Dowd
2 Water Systems.

3 Adjustment 9. The Staff proposes to annualize manager/owner
4 operator fees. Such fees include expenses associated with having
5 the Company's office operated out of the owner's home, office
6 supplies, business use of owner's car, grass cutting, and a salary for
7 operating the Company. Staff used the \$1,000 a month paid during
8 the last four months of the year to arrive at an annual
9 manager/owner operator fee of \$12,000. Stephenson Lakes'
10 allocated portion of this expense is \$3,448. This allocation is based
11 on the number of customers served by the Dowd Water Systems.

12 Adjustment 10. The Staff proposes to remove expenses associated
13 with the Bulk Water Supply Agreement between the Town of
14 Chapin and Stephenson Lakes pursuant to the Consent Order in
15 Docket No. 2001-156-W. The Company should be reimbursed this
16 amount from the Escrow Account that has been set up to cover
17 these expenses which include \$2,000 for engineering fees paid to
18 Letts Construction and \$127 for advertising fees paid to the Chapin
19 Times.

20 Adjustment 11. The Staff proposes to decrease O & M expenses in
21 the amount of \$(1,467) for the installation of a pump in

1 **Stephenson Lakes. The Company is now buying its water from the**
2 **town of Chapin and no longer needs this pump to operate its well.**
3 **Staff proposes to treat this expenditure as an extraordinary**
4 **retirement. The audit staff used a three year amortization period**
5 **recommended by the Utilities Department.**

6 **Adjustment 12. The Staff proposes to increase O & M expenses for**
7 **the bulk rate paid to the town of Chapin as stated in the "Bulk**
8 **Water Supply Agreement" at a rate of \$2.64 per customer for a**
9 **base meter fee and \$8.81 recoupment fee. The annualized amount**
10 **for the 25 Stephenson Lakes customers is \$3,435. This adjustment**
11 **does not include the \$3.50 commodity rate, the pass-thru charge**
12 **component of the "Bulk Water Supply Agreement" nor the capital**
13 **reserve fund. The commodity charge and capital reserve fund will**
14 **be discussed in the Utilities Department's testimony.**

15 **Adjustment 13. The Staff proposes to show the amount of revenue**
16 **needed to generate an operating margin of 0.00%, which includes**
17 **a manager/owner operator fee. The Staff's adjustment also**
18 **includes the computation of gross receipts taxes and income taxes.**

19 **Q. IF THE COMMISSION WERE TO GRANT THE COMPANY A CAPITAL**
20 **RESERVE FUND, WHAT RECOMMENDATIONS WOULD THE AUDIT**
21 **DEPARTMENT HAVE?**

1 **A. As I stated earlier, the Utilities Department will address the merits**
2 **of the Company having a capital reserve fund. However, if the**
3 **Commission should approve a capital reserve fund, the Audit**
4 **Department would recommend depositing the funds in a separate**
5 **bank account with the Commission and the Company having joint**
6 **control over this account. Any disbursements from this account**
7 **could only be used for Stephenson Lakes' capital expenditures. The**
8 **Company would need the Commission's approval before dispersing**
9 **any funds from this account.**

10 **Q. WHAT ARE THE REMAINING EXHIBITS CONTAINED IN THE**
11 **REPORT?**

12 **A. Exhibit A-2 details Staff's calculation of Customer Growth.**
13 **Exhibit A-3 shows the revenue requirements using the latest**
14 **approved operating margin of 23.96% and a range of operating**
15 **margins between 16% and 23%.**

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A. Yes, it does.**
18
19
20
21

AUDIT EXHIBIT A

**DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
OPERATING EXPERIENCE AND OPERATING MARGIN
FOR YEAR ENDED DECEMBER 31, 2002**

Description	(1) Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Proposed Increase \$	(5) Effect of Proposed Increase \$
<u>Operating Revenue</u>					
Water Revenue	15,300	(15,300) (1)	0	12,279 (7)	12,279
DHEC	1,425	(1,425) (2)	0	0	0
Miscellaneous	25	(25) (3)	0	0	0
Total Operating Revenue	16,750	(16,750)	0	12,279	12,279
<u>Operating Expenses</u>					
Operating & Maintenance	12,607	(2,936) (4)	9,671	0	9,671
General & Administrative	2,130	(223) (5)	1,907	0	1,907
Depreciation & Amortization	0	489 (6)	489	0	489
Taxes Other Than Income	113	0	113	99 (8)	212
Income Taxes	0	0	0	0 (9)	0
Total Operating Expenses	14,850	(2,670)	12,180	99	12,279
<u>Net Operating Income</u>	1,900	(14,080)	(12,180)	12,180	(0)
Customer Growth (Exhibit A-2)	0	0	0	0	0
Net Income For Return	1,900	(14,080)	(12,180)	12,180	(0)
 <u>Operating Margin</u>	 <u>11.34%</u>		 <u>-100.00%</u>		 <u>0.00%</u>

NOTE: Included in Total Operating Expenses is \$5,172 for manager/owner operator fees.

DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR YEAR ENDED DECEMBER 31, 2002

Adj. Revenue and Expenses No. Description	(1) Water Revenue	(2) DHEC	(3) Misc. Revenue	(4) O & M Exp.	(5) G & A Exp.	(6) Dep. & Amort.
	\$	\$	\$	\$	\$	\$
(1) The Staff proposes to remove flat rate based revenues. The Company is seeking a meter-based water distribution charge. (U)						
Per Staff	(15,300)					
(2) The Staff proposes to disallow miscellaneous revenue collected by the Company. This fee collected by the Company was used to offset the expenses for stamps, envelopes, etc. However, this fee has not been approved by the Commission. The Company charged each customer \$1. (U)						
Per Staff			(25)			
(3) The Staff proposes to remove the DHEC testing fees of \$1,425 collected from its customers and the \$1,425 testing expenses paid to DHEC. This fee is not regulated by the Commission. It is a pass through fee imposed by DHEC. (U & A)						
Per Staff		(1,425)		(1,425)		

DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR YEAR ENDED DECEMBER 31, 2002

Adj. Revenue and Expenses No. Description	(1) Water Revenue	(2) DHEC	(3) Misc. Revenue	(4) O & M Exp.	(5) G & A Exp.	(6) Dep. & Amort.
	\$	\$	\$	\$	\$	\$
(4) The Staff proposes to disallow one-half of a \$354 expense paid to BellSouth Telephone Company. This phone number is listed on the customers' bills but is used for both personal use and water company business. Stephenson Lakes' allocated portion of this expense is \$78. This allocation is based on the number of customers served by Dowd Water Systems. (A)						
Per Staff					(76)	
(5) The Staff proposes to remove \$1,724 of electric expenses paid to Mid-Carolina Electric Cooperative associated with Stephenson Lakes. Stephenson Lakes is now buying its water from the town of Chapin. The Company no longer needs electricity to operate its Stephenson Lakes' well. (A)						
Per Staff				(1,724)		
(6) The Staff proposes to amortize rate case expenses over three years. The test year included \$510 for expenses associated with the Company's applications for increases in rates in Docket Numbers 2001-75-W and 2001-181-W. Staff's adjustment decreased General and Administrative Expenses by \$340 on a combined basis. Stephenson Lakes' allocated portion for this expense is \$147. This allocation is based on the number of customers served by Dowd Water Systems.						
Per Staff					(147)	

DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR YEAR ENDED DECEMBER 31, 2002

Adj. Revenue and Expenses No. Description	(1) Water Revenue	(2) DHEC	(3) Misc. Revenue	(4) O & M Exp.	(5) G & A Exp.	(6) Dep. & Amort.
	\$	\$	\$	\$	\$	\$
<p>(7) The Staff proposes to remove loan payments from expenses. The loan was used to pay for pumps that were capitalized. Staff allowed depreciation expense on the pumps. The loan payments were used to reduce the liability for the loan on the Company's balance sheet and should not be considered an expense. (A)</p>						
Per Staff				(1,785)		
<p>(8) The Staff proposes to remove \$3,000 paid to the owner of the Company for the reimbursement of a loan used to open the Company's checking account in August 2001. Stephenson Lakes' allocated portion of this expense is \$1,291. This allocation is based on the number of customers served by Dowd Water Systems. (A)</p>						
Per Staff				(1,291)		
<p>(9) The Staff proposes to annualize manager/owner operator fees. Such fees include expenses associated with having the Company's office operated out of the owners' home, office supplies, mileage and business use of owner's car, grass cutting, and a salary for operating the Company. Staff used the \$1,000 a month paid during the last four months of the year to arrive at an annual manager/owner operator fee of \$12,000. Stephenson Lakes' allocated portion of this expense is \$3,448. This allocation is based on the number of customers served by Dowd Water Systems. (A)</p>						
Per Staff						3,448

DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR YEAR ENDED DECEMBER 31, 2002

Adj. Revenue and Expenses No. Description	(1) Water Revenue	(2) DHEC	(3) Misc. Revenue	(4) O & M Exp.	(5) G & A Exp.	(6) Dep. & Amort.
	\$	\$	\$	\$	\$	\$
(10) The Staff proposes to remove expenses associated with the Bulk Water Supply Agreement between the Town of Chapin and Stephenson Lakes pursuant to the Consent Order in Docket No. 2001-156-W. The Company should be reimbursed this amount from the Escrow Account that has been set up to cover these expenses which include \$2,000 for engineering fees paid to Letts Construction and \$127 for advertising fees paid to the Chapin Times. (A)				(2,127)		
Per Staff						
(11) The Staff proposes to decrease O & M expenses for the installation of a pump in Stephenson Lakes of \$(1,467). The Company is now buying its water from the town of Chapin and no longer needs this pump to operate its well. Staff proposes to treat this expenditure as an extraordinary retirement. The Audit Staff used a three year amortization period that was recommended by the Utilities Department. (A & U)				(1,467)		489
Per Staff						

**DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR YEAR ENDED DECEMBER 31, 2002**

Adj. Revenue and Expenses No. Description	(1) Water Revenue	(2) DHEC	(3) Misc. Revenue	(4) O & M Exp.	(5) G & A Exp.	(6) Dep. & Amort.
	\$	\$	\$	\$	\$	\$
(12) The Staff proposes to increase O & M expenses for the bulk rate paid to the town of Chapin as stated in the "Bulk Water Supply Agreement" at a rate of \$2.64 per customer for a base meter fee and \$8.81 recoupment fee. The annualized amount for the 25 Stephenson Lakes customers is \$3,435. This adjustment does not include the \$3.50 commodity rate, the pass-thru charge part of the "Bulk Water Supply Agreement" nor the capital reserve fund. (A)						
Per Staff				3,435		
Total Accounting and Pro Forma Adjustments - Revenue and Expenses -						
Per Staff	(15,300)	(1,425)	(25)	(2,936)	(223)	489

(A) The Audit Department is primarily responsible for adjustment.

(U) The Utilities Department is primarily responsible for adjustment.

DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS
FOR YEAR ENDED DECEMBER 31, 2002

Adj. No.	Proposed Increase Description	(7) Water Revenue	(8) Other Taxes	(9) Income Taxes
		\$	\$	\$

(13) The Staff proposes to show the amount of revenue needed to generate an operating margin of 0.00% which includes an owner/operator fee. Staff's adjustment includes the computation of gross receipts taxes and income taxes. (A & U)

Per Staff	12,279	99	0
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Total Accounting and Pro Forma Adjustments -			
Proposed Increase -			
Per Staff	12,279	99	0

(A) The Audit Department is primarily responsible for adjustment.

(U) The Utilities Department is primarily responsible for adjustment.

**DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
CUSTOMER GROWTH COMPUTATION
FOR YEAR ENDED DECEMBER 31, 2002**

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Proposed Increase	(5) Effect of Proposed Increase
	\$	\$	\$	\$	\$
Net Operating Income	1,900	(14,080)	(12,180)	12,180	(0)
Growth Factor	0.00%	0.00%	0.00%	0.00%	0.00%
Customer Growth	0	0	0	0	0

Number of Customers

Beginning	<u>25</u>
Ending	<u>25</u>
Average	<u>25</u>

Customer Growth Formula

Ending - Average	=	25 - 25	=	0	=	<u>0.00%</u>
Average		25		25		

**DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
ALTERNATE REVENUE REQUIREMENTS
TEST YEAR ENDED DECEMBER 31, 2002**

	(1) <u>Operating Margin</u> %	(2) <u>Revenue Required</u> \$	(3)(U) <u>Monthly Rates Required</u> \$
Revenue Requirement with base rate component of "Bulk Water Supply Agreement with a fee for Company's manager/owner operator.	<u>0.00%</u>	<u>12,279</u>	<u>40.93</u>
Revenue Requirement with the Approved Operating Margin issued in Docket No. 2001-75-W Order No. 2001-747 with a fee for Company's manager/owner operator and base rate component of "Bulk Water Supply Agreement.	$\begin{array}{r} 2.64 \\ 8.81 \\ \hline 11.45 \end{array}$ <u>23.96%</u>	$\begin{array}{r} 40.93 \\ 11.457 \\ \hline 29.48 \end{array}$ <u>17,520</u>	<u>58.40</u>
Revenue Requirement with the Approved Operating Margin issued in Docket No. 2001-75-W Order No. 2001-747 without a fee for Company's manager/owner operator and base rate component of "Bulk Water Supply Agreement.	<u>23.96%</u>	<u>10,080</u>	<u>33.60</u>

(U) The Utilities Department calculated the monthly rates required by dividing the revenue required by the annual number of billings which equals 300 (25 customers x 12 monthly billings).

DOWD WATER SYSTEMS, INC.
STEPHENSON LAKES
ALTERNATE REVENUE REQUIREMENTS
TEST YEAR ENDED DECEMBER 31, 2002

	(1)	(2)(U)	(3)	(4)(U)
	Revenue Required With	Monthly Rates Required	Revenue Required Without Manager/Owner Operator Fee	Monthly Rates Required
	Manager/Owner Operator Fee of \$5,172	\$	\$	\$
Operating Margin @ 16%	15,344	51.15	8,829	29.43
Operating Margin @ 17%	15,586	51.95	8,968	29.89
Operating Margin @ 18%	15,839	52.80	9,112	30.37
Operating Margin @ 19%	16,098	53.66	9,262	30.87
Operating Margin @ 20%	16,365	54.55	9,416	31.39
Operating Margin @ 21%	16,642	55.47	9,575	31.92
Operating Margin @ 22%	16,928	56.43	9,741	32.47
Operating Margin @ 23%	17,225	57.42	9,910	33.03

5,172 = 43%
12,000

NOTE 1: Calculations for other operating margins can be provided upon request.

NOTE 2: Revenue requirements include the base rate component of "Bulk Water Supply Agreement".

(U) The Utilities Department calculated the monthly rates required by dividing the revenue required by the annual number of billings which equals 300 (25 customers x 12 monthly billings).